



POLICE AND FIRE RETIREMENT SYSTEM OF SPRINGFIELD, MO

840 Boonville
Springfield, Missouri 65801
Voice Mail (417) 831-8901
Box Number 44140

Minutes October 8, 2009

1. Call to Order

Homan called the meeting to order at 8:35 a.m. Minutes taken by White.

Attendance

Members	Representation	Present	Absent
Ken Homan	Chairman	X	
Beau Barrett	Citizen	X	
David Carter	Fire		X
Jim Edwards	Police	X	
Steve Fenner	Citizen	X	
David Hall	Fire	X	
Ron Hoffman	Retiree	X	
Evelyn Honea	Deputy City Manager		X
Sheila Maerz	Human Resources		X
Mary Mannix-Decker	Finance	X	
Jim McCulloch	Police	X	
Cindy Rushefsky (NV)	City Council Liaison	X	
Dan Wichmer (NV)	Law	X	
Nikki White (NV)	Secretary	X	

NV = Non-voting

2. Approval Meeting Minutes – September 10, 2009 (open session) and September 21, 2009 (open session)

Homan stated that the minutes from the open sessions for September 10, 2009 and September 21, 2009 required the board's approval. Homan asked for a motion to approve the open session minutes for September 10, 2009 as presented. Motion made by Hoffman; 2nd by Hall. Vote all: Yes.

Homan asked for a motion to approve the open session minutes for September 21, 2009 as presented. Motion made by Hall; 2nd by Hoffman. Vote all: Yes.

3. Approval of Financial Statement Ending August 31, 2009

Homan asked Mannix-Decker to review the August financial statement.

Mannix-Decker reported on the following items of interest:

- Brandywine ended the month with a \$178,529 increase. They performed slightly below the index.

- Galliard ended the month with an increase of \$308,738. They performed slightly above the index.
- Funds are continuing to be moved to Pictet. The value at month end was \$1,639,893.
- Moving funds out of the lending fund into the non-lending fund continues to take place in State Street.
- Net assets ending August 31, 2009 were \$120,191,320.
- Total contributions were \$1,278,106 and total investment gain was \$2,718,347.
- Total deductions were \$1,396,987 and net increase in plan net assets was \$2,598,845.

Mannix-Decker added that an additional \$5 million that was recently deposited and will be reflected on the September statement. She advised getting Reina's opinion on how to invest the funds. The funds are currently in the cash account.

Homan asked for a motion to approve the financials for August 31, 2009. Motion by Hall; 2nd by Fenner. Vote all: Yes.

4. New Business – Review of Actuarial Valuation Report – June 30, 2009

Mike Zwiener of Milliman joined via conference call to present the actuarial report as of June 30, 2009 (on file).

Zwiener noted on page 4 that the total contribution rate increased from 63.52% in 2008 to 73.11% in 2009. The member contribution rate increased from 11.16% in 2008 to 15.34% in 2009. The City contribution rate increased from 52.36% in 2008 to 57.77% in 2009. Zwiener added that the 15.34% member rate is based on a blend of members contributing 8.5% (hired on or after June 1, 2006) and 16.02% (hired before June 1, 2006). The contribution rate for Tier I members is the sum of a flat 8.5% rate plus the Additional Funding Contribution (AFC). The AFC is to be set to cover the cost of the additional 0.3% multiplier. The primary reasons for the increase are actuarial losses due to poor investment return and the implementation of the new actuarial assumptions and methods recommended in the June 30, 2009 experience study. Zwiener added that the main reasons for the change in the total contribution rate to 73.11% are investments as well as assumption and method changes.

Wichmer asked about item 3a on page 6 that states the following: increases to the Fund Average Earnings load at retirement for members 40 and older. Zwiener explained that fire employees, 40 and over, was adjusted from 3% to 9% and police was tripled. Wichmer recalled the police number being 12% in 2004 and questioned that 36% is way too high. Zwiener said he would double check his information.

Zwiener added that the investment returns on the market value of assets for the years ending June 30, 2008 and June 30, 2009 were -4.7% and -19.1% respectively. This is obviously not favorable, but also not out of line with what similar systems across the U.S. have seen. The market value of assets on June 30, 2009 is more than \$50,000,000 lower than what would have existed if market returns had matched the assumption the last two years. The fund will fully recognize the investment losses. However, by utilizing the smoothing method the losses are recognized over a four year period versus all at once.

Zwiener stated that the actuarial liability as of June 30, 2009 is \$316,680,863 and the unfunded actuarial liability is \$169,483,343 for a funded ratio of 46.5%. This is using the actuarial value of

assets which the majority of plans utilize. It is contrasted with the market value of assets which states that the unfunded liability is \$204,310,676 for a funded ratio of 35.5%. The calculated contribution rate would have been 82.28% versus 73.11%.

Zwiener referred to the chart on page 9 comparing the last four years and mentioned that one of the reasons the recommended contribution as a percentage of payroll continues to increase is because the recommended contribution has increased while covered payroll has essentially been flat for the last four years.

The development of the recommended contribution is outlined on page 14. The entry age normal cost is added to the amortization payment for a total of \$17,418,704. The amortization payment is the amortization of the entry age unfunded accrued liability which is \$169,483,343. The extra \$10 million in contribution was helpful in keeping the contribution from being even higher. Hall pointed out the normal cost at 28.50%. The remainder of the recommended contribution is the 44.61% amortization payment on the unfunded accrued liability. If the 15.34% that the employees are paying is subtracted, the City's true cost of the benefits its accruing is 13.16% and all of the rest is because it is under funded. So if the plan was 100% funded, the City's contribution would be 13.16%. Zwiener said he thinks that is a relatively fair characterization aside from the 0.3% multiplier. Hall added that people over look that it's really a cost effective plan if it weren't for the huge amortization debt we are trying to pay off. He added that as other plans such as LAGERS are looked at where the payment is 13-16%, certainly that's very in line with this plan as well. He thinks the board gets unfairly criticized that this is an expensive plan that is unreasonable. The reason it is unreasonable is that there's a huge debt that has been unpaid.

Hall stated that the contributions are not equal to the pension payments so we have negative cash flow. One of the task force members asked if it was a plan that has had a continuous negative cash flow position for quite some time. He added that even if we make the 7.5% bogey we will still fall short. Zwiener said yes. The investment losses will be smoothed out and recognized over the next few years. Hall asked if the 7.5% rate of return is met, are we going to continue to have a negative cash flow absent any other funding that comes into the plan and worse off at the end of the year rather than better off even though we hit our assumptions? Zwiener said if the assumptions are met and the actuarial contributions are made then he wouldn't say that we would be cash negative. However, the actuarial losses from the past two years will still be recognized.

Hall mentioned the experience study that was presented last week. He said Zwiener had some preliminary estimates of the funding information and the aggregate amount that we saw that it would probably go to was almost 74%. We made a change that it was only over the age of 40 so he recognizes that this would reduce it down slightly. However, after that point we also made the change in employee assumptions on the AFC. It would seem to him that the total amount should have gone up rather than down because originally we were thinking the City's contribution rate would go up about 8% and the employees go up by 2%. Instead that is certainly not the case of the final evaluation. He asked Zwiener to explain why.

Zwiener said the methodology that was used to come up with the recommended contribution was done for the fund as a whole without recognition of who is paying for it. They just look at the obligation. Part of the obligation is the return of contribution feature. The member contribution rate is set every five years. They have the total contribution rate and they subtract the member contribution rate to come up with the City's rate. He added that the member contribution rate is set by looking at the sub-plan. They look at the .3 sub-plan as well as the AFC and they accumulate those with a proportionate

share of the investment experience of the fund as a whole. They also look at benefit payment, total contributions and return of contributions that are attributable to the .3. They essentially run the sub-plan and keep track of the sub-plan balance. Every fifth year they do an actuarial calculation to what is the additional funding charge that's needed to support the sub-plan. That is where the 7.52% came from. The reason there is change from 2004 to today is not only because of poor experience, but the additional factor that caused it to go up so much goes back to the tax base. The tax base for the AFC contribution is Tier I payroll. When Tier I payroll was expected to continue indefinitely, we could spread the funding of paying of the actuarial liability over the 30 year period on the assumption of the payroll growing with inflation. 2006 said our tax base is not going to behave that way. Our tax base is not going to grow or stay level; it's going to start shrinking and start shrinking pretty quickly because we have a closed group. So now we read the statute and the statute says Tier I members have to pay the full cost of that benefit and our tax base to pay for it is now compromised. It caused a significant increase in the rate in order to cover that liability. The ability to push any of that off into the future with the expectation that we'll have more people or higher payroll is not possible because of the Tier I group closing.

Hall said the short answer appears to him is that we're calculating the sub-plan differently than the overall plan. We're not using the same accelerated payment method of the AFC within the larger plan and you don't account for that. So when you're calculating the large plan as a whole you're still amortizing the AFC over the 30 year period. Zwiener said that is correct. Hall said he thinks that the criticism that will come out is that because the employees are paying more because of the accelerated schedule, which he thinks is very appropriate; in effect it is lowering what the City has to contribute.

Zweiner said we are paying off the sub-plan quicker than we would have otherwise with this accelerated schedule. We are not impacting any other part of the plan by doing this. So Hall is saying that if we'd had a more modest member contribution rate increase, there would have been a higher City rate.

Hall said he's not taking into account in the overall rate the fact that you're accelerating those payment methods. He added that you're taking the total plan and running the valuation and you strike up what the employees contribute. That didn't change from previous years. You did it exactly the same as you always do. That assumption for the AFC never played into the overall plan. So when you ran the calculations for the sub-plan and you used a different assumption than what you did for the main plan, it increased the employee contribution rate. Hall said again, he thinks that is very appropriate. Now you take that number which is larger and you subtract it off the total cost of this plan based on the other method. It lowers the contribution rate for the City rather than what the City would have paid had it been done the same way.

Zwiener said he hears what Hall is saying. Looking at the fund as a whole, he thinks the 73.11% is appropriate and he thinks the methodology is appropriate as well. He sees Hall point that we've got a sub-plan that we are accelerating. Hall said his concern is that if you ran the plan based on our assumptions without the AFC included and you ran the AFC and added those two together, he thinks you would come up with a higher number than what he got by running the plan as a whole and subtracting out the AFC. So his concern is we not having enough put in. Hall added that how the City and the employees work out who pays what is up to them, but what he's looking at is that if we determined that we needed an accelerated schedule for the AFC then why is that not included in those calculations of the overall plan? Zwiener said it's appropriate to do that for the plan as a whole and he's comfortable with that. What we are doing internally for the fund when we calculate an accelerated contribution rate, because of the specific circumstances he doesn't think that it influences

him on the overall methodology they used for the determining the recommended contributions for the whole plan. He added that if anything we are funding a part of it quicker. He thinks what they are doing is appropriate because if we didn't have the situation where the sub-plan was being funded with the AFC and we were just looking at the fund as a whole he thinks that what they did to get the 73.11% would be appropriate. A step further would be that we've got the sub-plan and we're going to fund it differently for the reasons we talked about and the fact that we are doing the sub-plan quicker he doesn't think that influences what he would want to do for the rest of the plan. Hall said ok, but he just wants to make sure that we are getting the needed amount into the fund and we are not cost shifting the expenses further down the road. Zwiener said that is a very valid concern. Hall said it just kind of surprised him when he saw the number compared to what they had seen before.

Sheppard and Burris entered the meeting at 9:35 a.m.

Zwiener concluded his review of the actuarial report. Homan asked for a motion to approve the report. Hall made a motion to accept the Actuarial Valuation as of June 30, 2009 as presented by Milliman; 2nd by Edwards. Vote all: Yes.

Homan asked for a motion to move to closed session at 9:50 a.m. Motion by Hall. 2nd by Hoffman. Vote all: Yes.

Open session resumed at 10:05 a.m. All present except Mannix-Decker.

5. Approval of Return of Contributions

Kenneth Hart	Relinquishment	Police	\$29,621.43
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Homan asked for a motion to approve the relinquishment application and return of contribution for Kenneth Hart. Motion by Hall; 2nd by McCulloch. Vote all: Yes.

6. Old Business

a. Scheduling of Disability Reexaminations.

Homan reported that there are currently 31 members receiving disability benefits that are under the age of 50. Initial review of the files didn't reveal without question that someone didn't need to be reexamined. Maerz gave her opinion awhile back that the board doesn't need to do anything that can be interpreted as subjective interpretation of who needs reexamined and who does not.

Homan stated that he is of the opinion that all of them, with the exception of those in the appeals process, be reexamined. His preference is to do the reexaminations over a three-year period with continual rotation every three years. Some may be dropped from the reexamination process if the initial evaluation comes to the conclusion that they have no hope of recovering to the point of being hired again. We would ask the doctors in the initial reexamination to make that determination if possible.

Wichmer asked if there would be a three physician panel. Hoffman said the board used to utilize only one doctor and if there was a question raised they would be examined by additional doctors. Wichmer said are some that are very obvious they won't be returning to work. Hall agreed, but at the same time doesn't know how the board can pick and chose and use some good objective criteria. He suggested sending them all this year and have the doctor report as to when each should be reevaluated for

possible improvement. If the doctor says there is no way someone is going to improve then the board never has to spend money reevaluating them again. He said the board needs this information from the beginning on any new disability cases and this will require adding a section to the form for the doctor to indicate if the disability is permanent or if reevaluation is needed.

Hall suggested sending them for their initial reevaluation and request a determination from the doctor as to whether further evaluations are recommended. Then the board can automatically set them on a schedule of every three years. He's concerned about the inconsistency from one doctor to the next as far as recommended reevaluation timeline so instead we ask the doctor if they need further evaluation and the board sets the schedule. Wichmer stated that the ordinance sets the rotation so the board just needs to know if they need further evaluation.

Fenner asked if they all had to go to the same doctor. He knows some on the list that are out of the country. Wichmer said they would need to work with the nurse consultant to find a doctor. Rushefsky asked if it would be beneficial to have the nurse consultant to develop a form so that there is some consistency. Wichmer said he would work with human resources to develop a form.

Hall made a motion to send all of those on the disability list under the age of 50, except for the three that are under appeal, to one doctor for evaluation with a request for determination of whether further evaluations are recommended. 2nd by Hoffman. Vote all: Yes.

b. Pension Board Election

Homan stated that Hall's and McCulloch's terms are up in December and this is the time of year the board begins the nomination process for the December election. He added that there is an ordinance that goes to the first reading at next Monday's Council meeting. Copies of the ordinance were distributed (copy on file). The ordinance is from a subcommittee of the Council and is recommending a seven-member board consisting of one elected police member, one elected fire member and five citizen members which shall be recommended by the City Manager and approved by Council. Two of the citizen members shall be from the areas of banking, financial management, or investment management. One member shall be from the areas of accounting, actuarial analysis or auditing. One member shall be from the medical profession and one member shall be from the legal profession. There will also be three non-voting members; one retiree, one city staff member, and one Council member.

Homan asked with the above in mind is it even appropriate to start the nomination process. He added that we will know within the next three weeks whether the composition of the board is such that we will need nominations. Homan asked if new fire and police members would have to be elected or if we continue with the two that their terms are not up until 2010. Wichmer said his concern when he drafted the ordinance was that someone's term would be shortened. He didn't want to create a run off election. Homan asked if it was up to the board or Council as to whether the fire and police members would have to be elected this year or if the board continues with those who terms are not up. Hall said he doesn't think it affects fire because he didn't plan to run again. McCulloch said he didn't plan to run again either simply because of working the night shift. Wichmer added that the members who don't expire until next year have already gone through the election process and been approved by their departments. McCulloch said Edwards and Carter are still on the board and you would have to have some reason to say they are being taken off the board. Their terms require them to be on the board until January 1, 2011 so there is no need for an election this December if the ordinance passes.

Burris stated that the Citizen's Task Force came up with two options for Council to consider regarding Pension Board membership. One was very similar to the membership today with a few changes and another one was very similar to what is being recommended in the ordinance. Those options were referred to Plans and Policies Committee of Council and this ordinance is their recommendation. Council had expressed an interest in doing this in advance of the November election as another good faith effort to the community that they are taking all of this very seriously. Wichmer added that the chair would now be voted on by the board versus appointed by the city manager as it is currently. The chair could only serve two consecutive years. Burris added that the task force recommended to Council that the board have the option to hire a fulltime executive director.

Rushefsky said that it is not clear in the proposed ordinance that the board can both utilize the city attorney and hire outside legal counsel. Wichmer said that last year there was in depth discussion that the board needed a fulltime financial advisor as well as outside counsel, but everyone agreed that the fund could not afford to pay for either of those. He added that he is comfortable handling disabilities for the board. Rushefsky said that she wants to make sure the board can hire independent legal counsel either as an alternative to the city attorney or as a supplement.

Homan stated that he's not sure the board needs to have an opinion on the ordinance except that it is clear to him as a citizen member that it's absolutely incumbent that we hire a director especially if the board will consist primarily of citizen members. He added that we can't rely on citizen member's abilities to absorb all the detail and know the historical background. Barrett and Fenner agreed. Homan added that the only reason the board has been able to operate this way in the past is because the majority of the people who come on the board have had experience with this plan. McCulloch asked Rushefsky what she felt this new composition does that the current composition doesn't. Rushefsky said she doesn't know what the task force had in mind because essentially this came out of the task force. She thinks that the basic idea is that going forward we can't always depend on having members from police and fire that are knowledgeable of the system. The concern was to put it on a professional and independent basis so that the board can make the decisions it needs to make. Burris added that there was the perception of conflict of interest. He added that the two of the three staff members that were appointed by the city manager have been pulled back and the third has been made non-voting. Homan stated that there is a state requirement to have one active police member and one active fire member.

Homan asked what would happen if the ordinance didn't pass and the board didn't proceed with seeking nominations for an election in December. Hall said in his opinion the board has to follow the ordinance that is currently in place and if this other comes about it may nullify it. The nomination notice must be distributed at least 15 days before the November meeting. The second reading and vote should take place on October 26th. If it doesn't pass then a call for nominations posting will need to be distributed by October 28th. If it passes then there will not be an election.

McCulloch questioned whether it was a good idea that the fire, police and retiree terms expire in the same year. In December of 2010, the board will be replacing three members with new people who don't have the experience. Rushefsky said that is a real concern. McCulloch said there is quite a learning curve and it might be better to stagger them. Homan added that it needs to be determined if the retiree remains an election position since they will no longer be a voting member. Wichmer asked Rushefsky if she wanted him to prepare a staggered amendment. Rushefsky said yes. Wichmer asked who was willing to extend their term for another year, police or fire. Edwards said he didn't plan to run again next year. The board was uncertain if Carter planned to run again after his term is up next year. Wichmer said he would write it so fire terms are up on odd number years and police terms are up

on even number years. He will also make sure the board has the ability to utilize both the city attorney's office as well as hire independent counsel.

Mannix-Decker entered the meeting at 11:05 a.m.

c. Income Verification

Mannix-Decker distributed a memo (on file) summarizing the responses from the letters sent regarding disability income verification. She stated that this process began several months ago at the direction of the board. Three letters have been sent to the disabled plan participants under 65. At the September meeting the board directed finance to send a letter to those over 65 years of age. The deadline for submitting the information was September 30, 2009. The letter requested each plan member's W-2 and their 1040. They also asked for the spouse's W-2 and this is by far the biggest point of contention and the largest issue with the incomplete responses. She wanted to be sure at the board's direction that they continue to ask for the spouse's W-2 or if the board is comfortable amending the board's policy and just ask for the participant's W-2. The consensus was that this was the best way to verify their income. Wichmer said they have responded to participants and told them they have the duty to verify their income. Hall said the board adopted a policy earlier in the year and it stated that the law department would send the last letter giving participants one last chance to provide the information prior to the December meeting. The letter should state that the board will review the information and benefits will be terminated effective January 1, 2010 for anyone that doesn't provide complete information.

Mannix-Decker stated that she feels the finance department has done as much as they can do and is requesting to turn it over to the law department. Rushefsky and Hall suggested making sure the letter included a statement reassuring them that their information is being stored in a secure environment. Hall also suggested those over 65 years of age being sent two additional letters before they are turned over to the law department. Mannix-Decker said she will follow the same process of sending three letters to those over 65 years of age. Wichmer will take over the group under 65 years that has already received three letters.

Hall referred to some of the calls he has received about the income verification process. One person in particular brought up the point that he earned additional income on his days off and he took a decrease in pay because of his duty disability since he can no longer earn the additional income. Many fire employees have other jobs to supplement their income. It was pointed out that all participants have been told that they are subject to reexamination and income verification. It certainly is an issue, but this is how the pension's disabilities work. Homan added that the pension board has done its job in following the rules of the system. This discussion is really for Rushefsky and a matter to be discussed with Council.

7. Adjournment

Homan adjourned the meeting at 11:25 a.m. on October 8, 2009.